

Topic: Clergy Taxes

Much of the confusion around clergy taxes stems from the dual tax status that is unique to clergy. While most clergy are considered employees for federal income tax reporting purposes, all clergy are self-employed for Social Security and Medicare tax purposes with respect to services performed in the exercise of ministry.

- Your earnings are reported on a Form W-2, not on a Form 1099.
- You are responsible to pay both federal income taxes and self-employment taxes for Social Security and Medicare (SECA) through quarterly estimated tax payments.
- You may voluntarily elect to have your employer withhold income taxes from your wages by submitting a completed Form W-4 Withholding Allowance Certificate to your employer.
 - Since you are not an employee for Social Security and Medicare tax purposes, your employer will not withhold your share of Social Security and Medicare taxes as is done for secular jobs.
 - On Form W-4, you can request additional income tax withholding to cover your self-employment tax liability for the year. The excess income tax withheld is a credit that can be applied against your self-employment tax liability.
- SECA taxes are computed on Schedule SE and reported with your federal income tax return.

Federal Taxable Income

As clergy, the portion of your wages that have been identified as clergy [housing allowance](#) (as per IRS regulations) is exempt from federal income taxes.

Self-employment (SECA) Tax

For SECA, all income subject to federal income tax plus the IRS allowable clergy housing allowance and utilities paid by your employer minus unreimbursed business expenses are taxed.

What if I have questions about clergy taxes?

There are several resources that you can use:

- Tax resources by Richard R. Hammar, J.D., LL.M., CPA:
 - 2016 Church & Clergy Tax Guide: Comprehensive, non-denominational guide to U.S. tax law for ministers and churches. May be purchased online at churchlawtodaystore.com
 - [Tax Guide for Episcopal Ministers](#): Specially edited by The Church Pension Fund to meet the needs of the Episcopal Church.
- CPG's Tax Hotline consultants
 - Ms. Nancy N. Fritschner, CPA (877) 305-1414
 - The Rev. Canon Bill Geisler, CPA (ret.). (877) 305-1415

Topic: Clergy Housing Allowance

Unlike other professions, clergy are allowed to exclude their housing expenses from federal income tax. The housing allowance only includes the actual costs to provide, furnish, and maintain your primary home.

What are the IRS limitations on clergy housing allowance exclusions?

- If you live in your own home, the IRS rules state that your clergy housing allowance is the **lowest** of the:
 - The amount designated in the vestry resolution,
 - Actual cash spent on housing, or
 - Fair market rental value
- If you live in church-provided housing, the housing allowance is
 - The fair market rental value of the church-provided housing, plus utilities if paid by church as well as any housing expenses paid individually by clergy.

How do I calculate these numbers?

Own or rent your primary home

If you live in a home that you either own or rent, you should keep a record of the three housing allowance methods with your tax records in case you are audited.

- Keep a copy of the annual vestry resolution. Note that it is not the vestry or governing board's decision as to the amount you can designate as a housing allowance. The vestry or governing board's only responsibility is to vote its approval of that housing allowance designation and to document its action in the minutes of the meeting. You determine the amount by estimating the amount you anticipate spending to provide yourself with a primary home.
- Throughout the year, keep a record of what you actually spent on housing.
 - See the most up-to-date [Tax Guide for Episcopal Ministers](#) for details of what expenses are considered qualified housing expenses.
- If you own your primary home the fair market rental value can be determined in a few ways.
 - Contact a real estate agent to provide you with an estimate of what your house would rent for as it is furnished. Then add utilities.
 - Check the cost of local rentals in your area for housing of your type. Add the cost of utilities and furnishings. You can check out a furnishing rental company to estimate the cost of furniture.
 - Keep a copy of the evaluation with your tax records and get a new evaluation, if not yearly, every few years to be sure it is up to date.

Use the **lowest** of the three methods as your clergy housing allowance designation when preparing your taxes.

Church-provided housing

Get an estimate of the fair market rental value as discussed above.

- The fair market rental value probably will not be the same as the value assessed under The Church Pension Fund Clergy Pension Plan.

Sample Vestry Housing Resolutions:

The following is a sample housing allowance resolution for a minister who owns or rents his home:

The following resolution was duly adopted by the vestry of Christ Church at a regularly scheduled meeting held on December 20, 2015, a quorum being present:

Whereas, the Reverend Samuel Johnson is compensated by Christ Church exclusively for the services as a minister of the gospel; and

Whereas, Christ Church does not provide Fr. Johnson with a rectory; therefore, it is hereby

Resolved, that the total compensation paid to Fr. Johnson for calendar year 2016 shall be \$50,000, of which \$15,000 is hereby designated to be a housing allowance; and it is further

Resolved, that the designation of \$15,000 as a housing allowance shall apply to calendar year 2016 and all future years unless otherwise provided.

Can I change my vestry resolution to reflect higher actual expenses?

The vestry resolution can be changed, but prospectively (going forward) only.

- If your vestry resolution is lower than your actual dollars spent, you can only claim expenses up to the vestry resolution (or fair market rental value, whichever is lower) for the time the vestry resolution is in place.
- You can have the vestry increase the allowance for the time going forward and claim the higher amount, up to fair market rental value.

What if my vestry does not pass a resolution?

During the time that there is not a resolution, you will not be able to claim the clergy housing allowance exclusion.

- Be sure to get a resolution passed right away for the rest of the year.
- It is a good idea to add a “safety net” to the end of your resolution stating the resolution is in effect until a new one is passed the next year.
- See the most up-to-date [Tax Guide for Episcopal Ministers](#) for an example of vestry resolutions.

I kept my primary residence but have a temporary one for my interim work. Can I claim both housing costs?

You can only claim one residence for the housing allowance. The residence you claim is dependent on how long the interim assignment lasts.

- If the interim position is for an indefinite period or lasts for more than one year (even one day longer), the interim residence will be considered the primary residence for tax purposes from the first day in the position.
 - The housing allowance will then be based solely on housing costs at the new location and “out of town” living expenses will not be eligible for tax-free reimbursement.
- If the interim position continues for one year or less, then the original home continues to be the primary residence for housing allowance purposes.
 - You may ask the vestry of the interim congregation to designate a portion of your compensation as a housing allowance based on your primary residence. In such cases, the housing provided at the interim location can be treated as reimbursable business expenses rather than as compensation.

Is the housing allowance excluded from SECA tax?

No, the value of the clergy housing allowance is not excluded from SECA tax.

Can I claim a clergy housing allowance in retirement?

In retirement, clergy may still be eligible to claim the clergy housing allowance.

- Your pension distributions from The Church Pension Fund Clergy Pension Plan (e.g. pension benefit, 13th check and resettlement benefit) are designated as eligible for the clergy housing allowance exclusion by the Board of Trustees of The Church Pension Fund each year.
- Some distributions from The Church Pension Fund Retirement Savings Plan (RSVP) can also be designated as a clergy housing allowance. Note, however, that you must contact Fidelity each time you request a distribution and notify them that the distribution is eligible for the clergy housing allowance.
- If you earn wages working as a minister in retirement, you can have the governing body designate some or all of the wages as housing allowance.
- You will be eligible to exclude the lowest of the actual cash spent on housing, the fair market rental value of the home furnished plus utilities, or the allowance designated.
- Upon the cleric’s death, a surviving spouse will not be able to claim the clergy housing allowance for any payments made to them.

Topic: Clergy Discretionary Funds

Title III, Canon 9, Section 6(b6), of the Constitution and Canons of the Episcopal Church (2015) reads: “The Alms and Contributions, not otherwise specifically designated, at the Administration of the Holy Communion on one Sunday in each calendar month, and other offerings for the poor, shall be deposited with the Rector or Priest-in-Charge or with such Church officer as the Rector or Priest-in-Charge shall appoint to be applied to such pious and charitable uses as the Rector or Priest-in-Charge shall determine. When a Parish is without a Rector or Priest-in-Charge, the vestry shall designate a member of the Parish to fulfill this function.”

What are some potential sources of income for the discretionary fund?

- The national canon is generally interpreted to mean that, at a minimum of one Sunday a month, the loose offering at the Holy Eucharist is designated for the clergy discretionary fund.
- Congregations may wish to set aside a budgeted amount for the discretionary fund in addition to or as a substitute for the above method.
- Congregations may designate that all fees or gifts received for weddings, funerals, and baptisms are contributed to the discretionary fund.
- Individuals may also contribute to the fund with occasional gifts.

How can the discretionary fund be set up?

Manual of Business Methods in Church Affairs details the accounting and record keeping of the discretionary fund. The vestry or governing board must approve all clergy discretionary fund accounts. There are two common ways to administer the discretionary account.

1. The money can run through the general operating account.
 - Income is deposited into the church’s general operating account
 - Disbursements are authorized by the cleric
 - Disbursements are written by check from the general operating account
2. The money can be in a separate checking account
 - The account must be opened using the church’s name and federal identification number or EIN.
 - You should never open the account in your name or use your Social Security number.
 - Income is deposited into the general operating account
 - Transfer (as needed or on regular basis) to the separate discretionary fund checking account
 - No other income should be deposited directly into the separate discretionary fund checking account
 - Authorized disbursements are made from the separate discretionary fund checking account
 - Cleric needs to maintain documentation or receipts
 - Monthly bank statements should be mailed to a person of trust other than the cleric, usually the treasurer or vestry member

The accounts used to disburse discretionary funds should be audited regularly to ensure that the accounts are used correctly.

Does the cleric have complete discretion for use of the funds?

- The cleric does not have complete discretion for the use of the funds.
- The clergy discretionary fund is used to address needs among congregation and community members.
 - Payments for food, rent, utilities, medical bills, and the like for persons in need are typical uses of these funds.
 - An inappropriate use is to meet expenses, which normally should be covered by the operating budget.
- You should never use the discretionary fund to make payments for anything that personally benefits you, as the fund is designated for charitable uses.
 - This includes using the funds for personal clothing, food, books, rent, utilities, insurance premiums, medical expenses, clericals, etc.
 - If you personally benefit from the discretionary fund, the IRS may deem the full value of the discretionary fund as taxable income to you.
- Detailed guidelines for discretionary funds are available in the Manual of Business Methods in Church Affairs.

Is there someone I can call if I have questions?

Call CPG’s Tax Hotline consultants

- Ms. Nancy N. Fritschner, CPA (877) 305-1414
- The Rev. Canon Bill Geisler, CPA (ret.) (877) 305-1415